

22 October 2015 | Sector Update

Construction
*Policy-Driven Infrastructural Largesse***Maintain POSITIVE****INVESTMENT HIGHLIGHTS**

- **Sectoral growth will be driven largely by infrastructure-related largesse from the implementation of various projects in Budget 2016**
- **Increased in award of contracts illustrates continued growth emanating from outstanding programs and policies as contained in the ETP, GTP and 11MP**
- **We maintain positive on the sector due to positive underlying dynamics evident by high outstanding orderbook which is supported by development policy implementation**

Steadily growing and likely continue to grow. We maintain our positive outlook stance on the construction sector largely in view of the ongoing and planned execution of government programs and policies. This is attested by the +8.2%yoy growth in project awards during 2Q15. We reckon that the positive trend will continue in upcoming year due to planned infrastructure projects that will be implemented in Budget 2016.

Continued growth in areas identified by ETP, GTP and 11MP. The increase in total projects awarded in Selangor and Wilayah Persekutuan (+RM11.77bn), Johor (+RM5.03bn) and Sarawak (+RM2.28bn) illustrates continuous growth stemming from government policy implementation particularly in areas identified by Economic Transformation Programme (ETP), Government Transformation Programme (GTP) and 11th Malaysia Plan (11MP). Note that Sarawak's budget for 2015 is RM4.28bn and its development expenditure amounted to more than 83% of the total allocation. We estimate that the upcoming Budget 2016 will be more generous to Sarawak with a potential budget of >RM5bn.

Expect higher development budget. The potential total value of government's development budget for 2016 may not be less than RM50bn with sizable allotments toward rural development and urban public transport initiatives, which are two of the National Key Result Areas (NKRAs) under the GTP. This is necessary in order to complete the GTP3.0 which runs from 2015-2020. It is notable that the GTP3.0 shall focus more on intra and inter-urban transport infrastructure and transit system such as BRT and KVMRT1, KVMRT2 and LRT3.

Infrastructural largesse may continue post-2020. We do not expect the long-term emphasis on infrastructural development to fizzle out despite the recent volatility of crude oil prices and prevailing pressure on the Ringgit. Among the main objectives of ETP, GTP and 11MP is to accelerate Malaysia's growth towards a high income nation. Thus it is imperative that the infrastructure-centric policies to continue on until 2020 and even beyond. As an example, the High Speed Rail (MyHSR) project from Kuala Lumpur to Singapore is arguably a testament to the potential continuation in infrastructure boon beyond the target completion of the ETP, GTP and 11MP in 2020. The MyHSR project is currently slated to be completed in 2022 with a behemoth budget of >RM30bn.

Maintain Positive. We maintain positive on the sector due to positive underlying dynamics based on (i) the current on-going and planned roll out of various government projects, (ii) attractive average sectoral ROE of 15% compared to average of 11.4% for the market benchmark, (iii) relatively inexpensive valuation with average PER of 11.54x, and (iv) growing awarded projects year-on-year. The outstanding orderbook and total revenue cover (outstanding orderbook/revenue) among the stocks under our coverage are as follow: **Muhibbah (BUY; TP: RM2.95):** +RM2.4bn, 1.5x; **IJM (Neutral; TP: RM3.56):** +RM6.6bn, 1.1x; **SunCon (BUY; TP: RM1.32):** +RM4.77bn, 2.3x; and **Gamuda (BUY; TP: RM4.83):** +RM1bn, 0.5x.

Our View. We are sanguine on the prospect of the sector with **Muhibbah (BUY; TP: RM2.95)**, **SunCon (BUY; TP: RM1.32)** and **Gamuda (BUY; TP: RM4.83)** as our top picks. The selection of our top picks take into account of the following: (i) these companies have responded well in replenishing their orderbook, and (ii) they possess strong fundamentals with niche construction capabilities. 

INVESTMENT STATISTICS

Company	Net Profit (RM' m)			EPS (Sen)			PER			PBV	Bv/s (RM)	Net margin (%)	ROA (%)	ROE (%)
	FY14	FY15F	FY16F	FY14	FY15F	FY16F	FY14	FY15F	FY16F	2014				
Gamuda	719.4	735.5	709.0	31.3	30.6	29.5	14.2	14.5	15.0	1.68	2.63	30.65	5.52	10.99
Eversendai	37.4	85.0	90.3	4.8	11.0	11.7	15.8	6.9	6.5	0.59	1.28	8.48	4.27	9.34
WCT	122.9	150.7	165.1	10.8	12.7	14.0	13.5	11.4	10.4	0.71	2.03	9.11	2.42	6.59
HSL	76.9	88.1	100.5	14.0	16.0	18.3	12.7	11.0	9.7	1.56	1.14	14.57	10.92	14.78
IJM	829.6	561.1	634.7	29.5	15.7	17.8	10.8	20.4	18.0	1.11	2.88	10.30	2.84	5.86
Muhibbah	81.6	102.8	104.8	19.2	21.9	22.4	10.4	9.1	8.9	1.27	1.57	5.93	3.28	11.84
Protasco	-46.4	78.9	81.4	-14.0	23.5	24.3	8.5	6.8	6.6	1.54	1.04	7.43	8.52	20.99
SunCon	124.8	127.9	107	9.7	9.9	8.3	12.5	12.2	13.9	4.96	0.24	6.80	10.19	41.22

Source: MIDFR

VALUATION BASIS

Company	Rec.	T/P (RM)	Basis for Valuation
Gamuda	N	4.83	Sum-of-parts valuation (SOP) on the back of prospective PER of 18x
Eversendai	B	1.28	FYE16 EPS to its 3 year quarterly PER mean of 11x.
WCT	N	1.70	Sum-of parts valuation with an implied PER of 11.3 x. Share price is trading at 35% discount to its book value, i.e. P/BV of 0.65x.
HSL	B	2.06	FY16 EPS of 17.2 sen to PER multiple of 12x; 1 standard deviation (SD) above the mean of its historical 3-year quarterly PER of 10x.
IJM	N	3.56	Sum-of parts valuation with an implied PER of 10.5x, reflecting 1:1 bonus issue on the 11/9/15
Muhibbah	B	2.95	Sum-of-parts valuation (SOP). The implied multiple of 12.3x is based on EPS16 which equates to the lower end of our midcap construction range of 12-14x.
Protasco	B	2.45	Sum-of-Parts (SOP) valuation and implied PER of FYE16 of 7x.
SunCon	B	1.32	Sum-of-parts (SOP) valuation and implied PER of 16x based on EPS FYE16. Share price trades at PER of 16x of 14x at the mid-range of KLCON Average PER of 12-16x

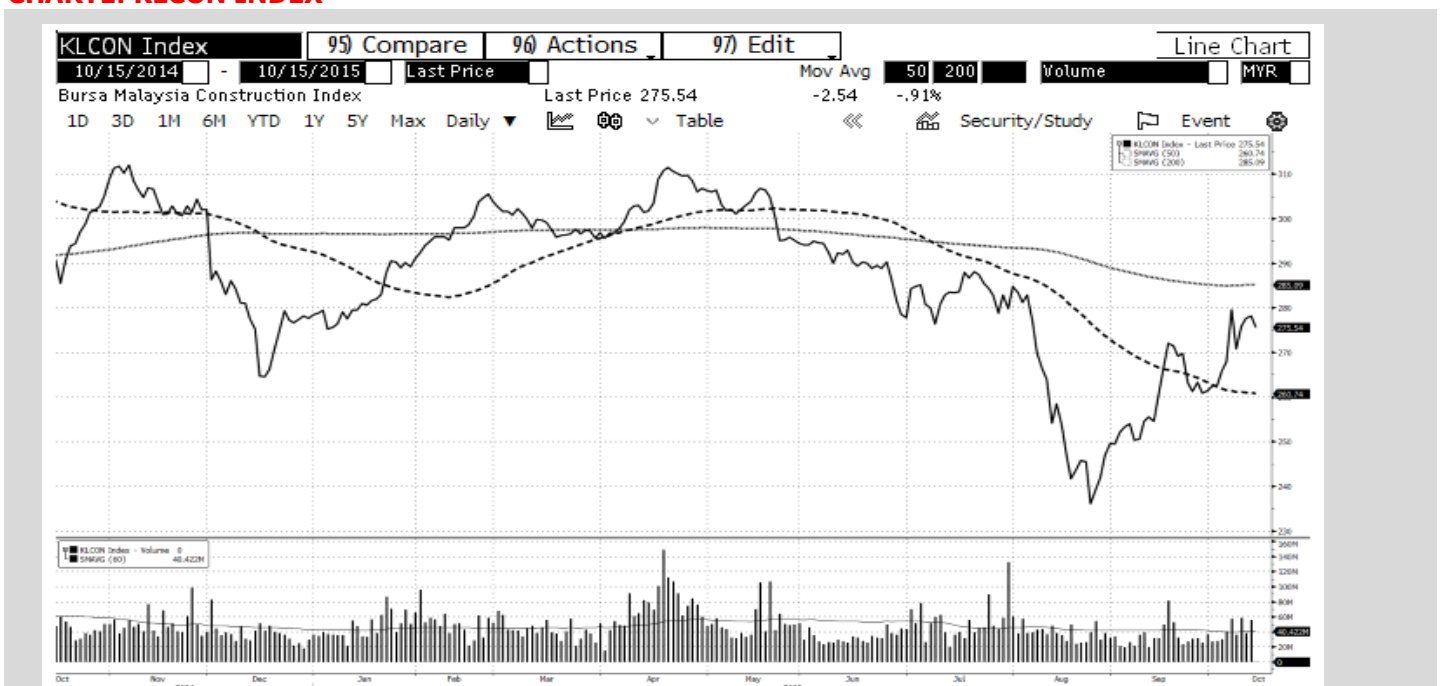
Source: MIDFR

LIST OF PROJECTS AWARDED 2Q15 UNDER MIDFR COVERAGE

Company	Projects	Amount (RM'm)
Gamuda	Penang PTMP	1620
IJM	Equatorial Plaza	455.5
WCT	Kwasa Damansara	127.3
	Lifestyle Quarter, Jalan Tun Razak	70.4
Muhibbah	RAPID Effluent Water Treatment	949.6
	RAPID Steam Cracker	158.2
	Northport	143.1
SunCon	Putrajaya Building	1609
	Sunway Iskandar	174.5
Protasco	AFC 4 Storey Building	44
Total		5351.6

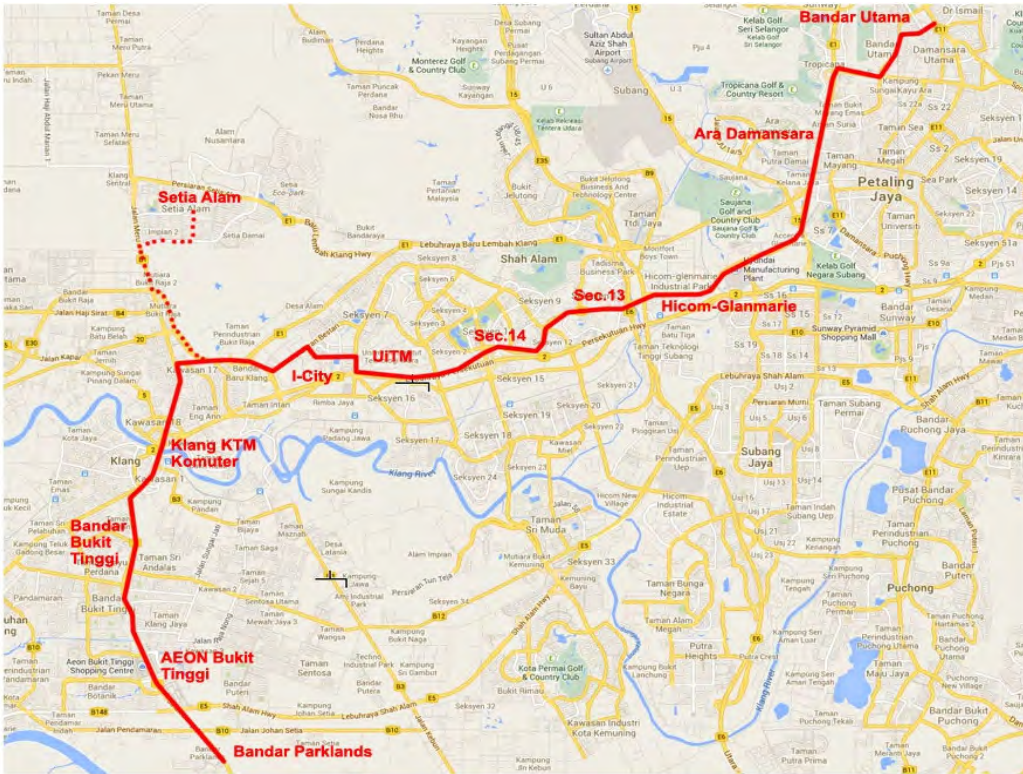
Source: Bloomberg, MIDFR

CHART1: KLCON INDEX



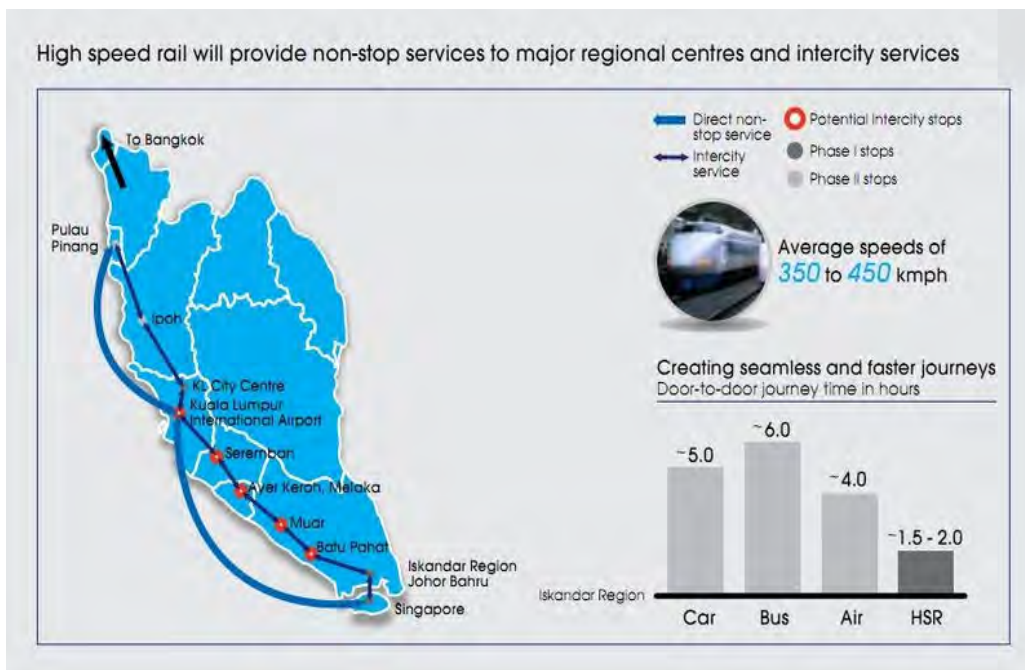
Source: Bloomberg, MIDFR

CHART 2: LRT3 ROUTE



Source: Company, MIDFR

CHART 3: INFO ON HIGH SPEED RAIL



Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.